

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>Village of Eau Claire, Michigan</u>	County Berrien
Audit Date February 28, 2005	Opinion Date June 20, 2005	Date Accountant Report Submitted To State: August 30, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>Plante &amp; Moran, PLLC</b>			
Street Address 511 Renaissance Drive, Suite 120	City St. Joseph	State MI	ZIP 49085
Accountant Signature 			

# **Village of Eau Claire, Michigan**

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**Financial Report  
with Supplemental Information  
February 28, 2005**

# Village of Eau Claire, Michigan

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## Independent Auditor's Report

To the Village Council  
Village of Eau Claire, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Eau Claire, Michigan as of and for the year ended February 28, 2005, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Eau Claire, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Eau Claire, Michigan as of February 28, 2005 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and the budgetary comparison schedules, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

To the Village Council  
Village of Eau Claire, Michigan

As described in Note 9, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of March 1, 2004.

*Plante & Moran, PLLC*

June 20, 2005

# **Village of Eau Claire, Michigan**

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## **Management's Discussion and Analysis**

Our discussion and analysis of the Village of Eau Claire, Michigan's financial performance provides an overview of the Village's financial activities for the fiscal year ended February 28, 2005. Please read it in conjunction with the Village's financial statements.

### **Financial Highlights**

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended February 28, 2005:

- State-shared revenue, the Village's second largest revenue source, was reduced by the State of Michigan by approximately \$7,022 this year, a reduction of 8.21 percent from fiscal year 2004.

### **Using this Annual Report**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

# Village of Eau Claire, Michigan

## Management's Discussion and Analysis (Continued)

### The Village as a Whole

The following table shows, in a condensed format, the net assets as of February 28, 2005. In future years, when prior year information is available, comparative data will be presented.

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 434,938	\$ 263,819	\$ 698,757
Noncurrent assets	<u>168,868</u>	<u>284,854</u>	<u>453,722</u>
Total assets	603,806	548,673	1,152,479
<b>Liabilities</b>			
Current liabilities	23,702	1,579	25,281
Long-term liabilities	<u>2,238</u>	<u>-</u>	<u>2,238</u>
Total liabilities	<u>25,940</u>	<u>1,579</u>	<u>27,519</u>
<b>Net Assets</b>			
Invested in capital assets - Net of Net of related debt	156,211	284,854	441,065
Restricted	119,916	-	119,916
Unrestricted	<u>301,739</u>	<u>262,240</u>	<u>563,979</u>
Total net assets	<u><u>\$ 577,866</u></u>	<u><u>\$ 547,094</u></u>	<u><u>\$ 1,124,960</u></u>

The Village's combined net assets increased 10 percent from a year ago - increasing from \$1,019,577 to \$1,124,960. As we look at the governmental activities separately from the business-type activities, we can see that governmental activities net assets increased 14 percent, from \$507,949 to \$577,866, while business-type activities increased 7 percent, from \$511,628 to \$547,094.

# Village of Eau Claire, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year. In future years, when prior year information is available, comparative data will be presented.

	Governmental Activities	Business-type Activities	Total
<b>Revenue</b>			
Program revenue:			
Charges for services	\$ 10,950	\$ 154,468	\$ 165,418
Operating grants and contributions	57,689	8,969	66,658
General revenue:			
Property taxes	164,478	-	164,478
State-shared revenue	78,815	-	78,815
Unrestricted interest income	4,924	3,430	8,354
Miscellaneous	15,302	-	15,302
Total revenue	332,158	166,867	499,025
<b>Program Expenses</b>			
General government	89,022	-	89,022
Public safety	83,225	-	83,225
Public works	70,153	-	70,153
Recreation and culture	19,841	-	19,841
Water, sewer, and sanitation	-	131,401	131,401
Total program expenses	262,241	131,401	393,642
<b>Change in Net Assets</b>	<b>\$ 69,917</b>	<b>\$ 35,466</b>	<b>\$ 105,383</b>

### Governmental Activities

- A property tax levy for 2004 was approved by the Village Council during the May 2004 council meeting at a combined General and Streets millage rate of 15.7768.
- With approximate revenue of \$160,000 (assuming 100 percent collection), this would be an increase of approximately 2.05 percent over the same revenue source from 2003.
- The Village paid Klett Construction \$19,525 to re-surface the following roads: Pond-a-Rosa, Sandy Hill, West Ivy, and North Elm.



# **Village of Eau Claire, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Business-type Activities**

During the year, the Village Council approved a number of projects related to the Water and Sewer Departments. Approval and allocation of funds for the major projects were as follows:

- Drilling for a new well project, costing approximately \$43,000
- \$26,200 of engineering work by Fleis & Vandenbrink for two water main loop projects with an estimated cost of \$110,000
- A Well Head Protection Plan, budgeted for \$18,500, to be completed by Fleis & Vandenbrink
- Lagoon ex-filtration project, budgeted for \$18,000, to be completed by Fleis & Vandenbrink

Two grants were applied for to be used for the projects stated above. The MDEQ Grant in the amount of \$7,000 was awarded to be used for the Well Head Protection Plan. The Michigan Economic Development Block Grant, yet to be awarded, would allow the Village to pay for the new well, and upgrade the pump-house and lift station. The Village's portion of the expenditures, if awarded, would be \$143,000.

### **General Fund Budgetary Highlights**

The General Fund pays for most of the Village's governmental services. The primary services provided include police and fire services, administrative services, public services, and parks and recreation.

As shown in the required supplemental information, the Village originally budgeted operational expenditures of \$181,840. During the course of the year, the Village amended the budget and budgeted expenditures of \$187,413. Actual expenditures ended up greater than budget by \$14,791. The significant budget-to-actual difference was a result of the police department's general operating expenditures being significantly higher than what was originally expected.

### **Economic Factors and Next Year's Budgets and Rates**

The Village's fiscal 2006 budget anticipates additional cuts in state-shared revenue. Current economic conditions in the state of Michigan have put statutory revenue sharing at risk of being reduced. The Council has adopted a conservative budget that retains current fund balance, but also facilitates community priorities and quality services.

In an attempt to strengthen returns on unspent funds, the Village has re-examined several banking relationships and has deposited funds with United Federal Credit Union to increase yields in the future.

# **Village of Eau Claire, Michigan**

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## **Management's Discussion and Analysis (Continued)**

The Village plans to complete work on two water main loops estimated to cost \$110,000.

During the next fiscal year, the Village will complete payments on the Internal Service Fund note. When this occurs, the Village will be debt-free.

### **Contacting the Village's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Clerk's office.

# Village of Eau Claire, Michigan

## Statement of Net Assets February 28, 2005

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
<b>Assets</b>			
Cash and cash equivalents (Note 3)	\$ 403,672	\$ 240,843	\$ 644,515
Receivables:			
Taxes	7,440	-	7,440
Customer	-	22,976	22,976
Due from other governmental units	23,826	-	23,826
Capital assets - Net (Note 4)	168,868	284,854	453,722
Total assets	603,806	548,673	1,152,479
<b>Liabilities</b>			
Accounts payable	5,333	1,579	6,912
Accrued and other liabilities	3,612	-	3,612
Noncurrent liabilities:			
Due within one year (Note 6):			
Notes payable	12,657	-	12,657
Employee compensated absences	2,100	-	2,100
Due in more than one year -			
Employee compensated absences	2,238	-	2,238
Total liabilities	25,940	1,579	27,519
<b>Net Assets</b>			
Invested in capital assets - Net of related debt	156,211	284,854	441,065
Restricted for streets and highways	119,916	-	119,916
Unrestricted	301,739	262,240	563,979
Total net assets	\$ 577,866	\$ 547,094	\$ 1,124,960

# Village of Eau Claire, Michigan

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 89,022	\$ 2,923	\$ -	\$ -
Public safety	83,225	6,040	2,063	-
Public works	70,153	1,987	55,626	-
Recreation and culture	19,841	-	-	-
Total governmental activities	262,241	10,950	57,689	-
Business-type activities:				
Water	57,954	75,444	8,969	-
Sewer	47,636	55,877	-	-
Sanitation	25,811	23,147	-	-
Total business-type activities	131,401	154,468	8,969	-
Total primary government	<u>\$ 393,642</u>	<u>\$ 165,418</u>	<u>\$ 66,658</u>	<u>\$ -</u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted interest income				
Miscellaneous				
Total general revenues				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended February 28, 2005**

Net (Expense) Revenue and Changes in Net Assets

<u>Primary Government</u>		
<u>Governmental</u>	<u>Business-type</u>	
<u>Activities</u>	<u>Activities</u>	<u>Total</u>
\$ (86,099)	\$ -	\$ (86,099)
(75,122)	-	(75,122)
(12,540)	-	(12,540)
<u>(19,841)</u>	<u>-</u>	<u>(19,841)</u>
(193,602)	-	(193,602)
-	26,459	26,459
-	8,241	8,241
<u>-</u>	<u>(2,664)</u>	<u>(2,664)</u>
<u>-</u>	<u>32,036</u>	<u>32,036</u>
(193,602)	32,036	(161,566)
164,478	-	164,478
78,815	-	78,815
4,924	3,430	8,354
<u>15,302</u>	<u>-</u>	<u>15,302</u>
<u>263,519</u>	<u>3,430</u>	<u>266,949</u>
69,917	35,466	105,383
<u>507,949</u>	<u>511,628</u>	<u>1,019,577</u>
<u><b>\$ 577,866</b></u>	<u><b>\$ 547,094</b></u>	<u><b>\$ 1,124,960</b></u>

# Village of Eau Claire, Michigan

## Governmental Funds Balance Sheet February 28, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total Governmental Funds
<b>Assets</b>					
Cash and investments	\$ 283,734	\$ 44,861	\$ 1,796	\$ 61,882	\$ 392,273
Receivables:					
Taxes	5,317	-	-	2,123	7,440
Due from other governmental units	14,262	7,001	2,563	-	23,826
Total assets	<u>\$ 303,313</u>	<u>\$ 51,862</u>	<u>\$ 4,359</u>	<u>\$ 64,005</u>	<u>\$ 423,539</u>
<b>Liabilities and Fund Balances</b>					
<b>Liabilities</b>					
Accounts payable	\$ 4,795	\$ 155	\$ 155	\$ -	\$ 5,105
Accrued and other liabilities	3,612	-	-	-	3,612
Total liabilities	8,407	155	155	-	8,717
<b>Fund Balances</b>					
Unreserved, reported in:					
General Fund:					
Designated for park improvements	93,235	-	-	-	93,235
Undesignated	201,671	-	-	-	201,671
Special Revenue Funds	-	51,707	4,204	64,005	119,916
Total fund balances	294,906	51,707	4,204	64,005	414,822
Total liabilities and fund balances	<u>\$ 303,313</u>	<u>\$ 51,862</u>	<u>\$ 4,359</u>	<u>\$ 64,005</u>	
Amounts reported for governmental activities in the statement of net assets are different because:					
Capital assets used in governmental activities are not financial resources and are not reported in the funds					101,192
Internal Service Fund is included as part of governmental activities					66,190
Long-term liabilities are not due and payable in the current period and are not reported in funds					(4,338)
Net assets of governmental activities					<u>\$ 577,866</u>

# Village of Eau Claire, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended February 28, 2005

	General Fund	Major Streets Fund	Local Streets Fund	Municipal Streets and Sidewalks Fund	Total Governmental Funds
<b>Revenue</b>					
Property taxes	\$ 117,535	\$ -	\$ -	\$ 46,943	\$ 164,478
State sources	79,315	40,727	14,899	-	134,941
Federal sources	1,563	-	-	-	1,563
Licenses and permits	8,670	-	-	-	8,670
Charges for services	61	-	-	-	61
Fines and forfeitures	8,011	-	-	-	8,011
Interest and rentals	5,414	400	103	734	6,651
Other	7,725	-	-	-	7,725
<b>Total revenue</b>	<b>228,294</b>	<b>41,127</b>	<b>15,002</b>	<b>47,677</b>	<b>332,100</b>
<b>Expenditures</b>					
General government	85,422	-	-	-	85,422
Public safety:					
Police	83,688	-	-	-	83,688
Fire	1,870	-	-	-	1,870
Inspections	4,786	-	-	-	4,786
<b>Total public safety</b>	<b>90,344</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>90,344</b>
Public works	8,391	13,755	37,314	11,038	70,498
Park and recreation	18,047	-	-	-	18,047
<b>Total expenditures</b>	<b>202,204</b>	<b>13,755</b>	<b>37,314</b>	<b>11,038</b>	<b>264,311</b>
<b>Excess of Revenue Over (Under)</b>					
<b>Expenditures</b>	<b>26,090</b>	<b>27,372</b>	<b>(22,312)</b>	<b>36,639</b>	<b>67,789</b>
<b>Other Financing Sources (Uses)</b>					
Transfers in	-	-	14,000	-	14,000
Transfers out	-	-	-	(14,000)	(14,000)
<b>Total other financing sources (uses)</b>	<b>-</b>	<b>-</b>	<b>14,000</b>	<b>(14,000)</b>	<b>-</b>
<b>Net Change in Fund Balances</b>	<b>26,090</b>	<b>27,372</b>	<b>(8,312)</b>	<b>22,639</b>	<b>67,789</b>
<b>Fund Balances - Beginning of year</b>	<b>268,816</b>	<b>24,335</b>	<b>12,516</b>	<b>41,366</b>	<b>347,033</b>
<b>Fund Balances - End of year</b>	<b>\$ 294,906</b>	<b>\$ 51,707</b>	<b>\$ 4,204</b>	<b>\$ 64,005</b>	<b>\$ 414,822</b>

# Village of Eau Claire, Michigan

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## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended February 28, 2005**

<b>Net Change in Fund Balances - Total Governmental Funds</b>	<b>\$</b>	<b>67,789</b>
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	9,307
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Governmental funds depreciation	(5,407)
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Internal Service Fund is also included as governmental activities	770
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Increase in accumulated employee vacation pay is recorded when earned in the statement of activities	<u>(2,542)</u>
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<b>Change in Net Assets of Governmental Activities</b>	<b>\$</b>	<b><u>69,917</u></b>
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# Village of Eau Claire, Michigan

## Proprietary Funds Statement of Net Assets February 28, 2005

	Waste Water Fund	Water Fund	Sanitation Fund	Total Enterprise Funds	Internal Service Fund
<b>Assets</b>					
Current assets:					
Cash and cash equivalents	\$ 77,943	\$ 161,290	\$ 1,610	\$ 240,843	\$ 11,399
Receivables - Net	9,077	10,047	3,852	22,976	-
Total current assets	87,020	171,337	5,462	263,819	11,399
Capital assets	205,226	79,628	-	284,854	67,676
Total assets	292,246	250,965	5,462	548,673	79,075
<b>Liabilities</b>					
Accounts payable	-	1,579	-	1,579	228
Current portion of long-term debt	-	-	-	-	12,657
Total liabilities	-	1,579	-	1,579	12,885
<b>Net Assets</b>					
Investment in capital assets - Net of related debt	205,226	79,628	-	284,854	55,019
Unrestricted	87,020	169,758	5,462	262,240	11,171
Total net assets	<u>\$ 292,246</u>	<u>\$ 249,386</u>	<u>\$ 5,462</u>	<u>\$ 547,094</u>	<u>\$ 66,190</u>

# Village of Eau Claire, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Fund Net Assets Year Ended February 28, 2005

	Waste Water Fund	Water Fund	Sanitation Fund	Total Enterprise Funds	Internal Service Fund
<b>Operating Revenue</b>					
Sewage disposal charges	\$ 55,877	\$ -	\$ -	\$ 55,877	\$ -
Sale of water	-	75,444	-	75,444	-
Sanitation charges	-	-	23,147	23,147	-
Other	-	8,969	-	8,969	33,929
Total operating revenue	55,877	84,413	23,147	163,437	33,929
<b>Operating Expenses</b>					
Salaries	18,656	22,590	1,578	42,824	3,841
Fringe benefits	269	324	-	593	93
Utilities	1,594	2,541	-	4,135	3,717
Supplies	667	3,198	823	4,688	1,500
Equipment rental expense	3,140	4,536	-	7,676	-
Lab tests	1,350	622	-	1,972	-
Refuse removal	-	-	21,828	21,828	-
Insurance	2,378	622	-	3,000	1,883
Maintenance	4,239	8,379	-	12,618	3,868
Depreciation	12,717	299	321	13,337	11,896
Professional services	1,650	2,854	1,000	5,504	600
Other	976	11,989	261	13,226	5,819
Total operating expenses	47,636	57,954	25,811	131,401	33,217
<b>Operating Income (Loss)</b>	8,241	26,459	(2,664)	32,036	712
<b>Nonoperating Revenue - Investment income</b>	900	2,487	43	3,430	58
<b>Change in Net Assets</b>	9,141	28,946	(2,621)	35,466	770
<b>Net Assets - Beginning of year</b>	283,105	220,440	8,083	511,628	65,420
<b>Net Assets - End of year</b>	<u>\$ 292,246</u>	<u>\$ 249,386</u>	<u>\$ 5,462</u>	<u>\$ 547,094</u>	<u>\$ 66,190</u>

# Village of Eau Claire, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended February 28, 2005

	Waste Water Fund	Water Operating Fund	Sanitation Fund	Total Enterprise Funds	Internal Service Fund
<b>Cash Flows from Operating Activities</b>					
Receipts from customers	\$ 56,042	\$ 76,810	\$ 23,341	\$ 156,193	\$ -
Payments to suppliers	(16,038)	(33,399)	(23,957)	(73,394)	(17,664)
Payments to employees	(18,925)	(22,914)	(1,578)	(43,417)	(3,934)
Other	-	8,969	-	8,969	40,634
Net cash provided by (used in) operating activities	21,079	29,466	(2,194)	48,351	19,036
<b>Cash Flows from Capital and Related Financing Activities</b>					
Principal paid on long-term debt	-	-	-	-	(12,656)
Purchase of capital assets	(3,952)	(75,647)	-	(79,599)	(11,000)
Net cash used in capital and related financing activities	(3,952)	(75,647)	-	(79,599)	(23,656)
<b>Cash Flows from Investing Activities - Interest received</b>	900	2,487	43	3,430	58
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	18,027	(43,694)	(2,151)	(27,818)	(4,562)
<b>Cash and Cash Equivalents - Beginning of year</b>	59,916	204,984	3,761	268,661	15,961
<b>Cash and Cash Equivalents - End of year</b>	<b>\$ 77,943</b>	<b>\$ 161,290</b>	<b>\$ 1,610</b>	<b>\$ 240,843</b>	<b>\$ 11,399</b>
<b>Reconciliation of Operating Income (Loss) to Net Cash from Operating Activities</b>					
Operating income (loss)	\$ 8,241	\$ 26,459	\$ (2,664)	\$ 32,036	\$ 712
Adjustments to reconcile operating income (loss) to net cash from operating activities:					
Depreciation	12,717	299	321	13,337	11,896
Loss on fixed assets	-	-	-	-	6,705
Changes in assets and liabilities:					
Receivables	165	1,366	194	1,725	-
Inventory	-	2,378	-	2,378	-
Accounts payable	(44)	(1,036)	(45)	(1,125)	(277)
Net cash provided by (used in) operating activities	<b>\$ 21,079</b>	<b>\$ 29,466</b>	<b>\$ (2,194)</b>	<b>\$ 48,351</b>	<b>\$ 19,036</b>

**Noncash investing, Capital and Financing Activities** - During the year ended February 28, 2005, the Waste Water, Water, Sanitation, and Internal Service funds did not have any noncash activities.

# **Village of Eau Claire, Michigan**

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## **Notes to Financial Statements February 28, 2005**

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the Village of Eau Claire, Michigan (the "Village") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Village of Eau Claire, Michigan:

#### **Reporting Entity**

The Village of Eau Claire, Michigan is governed by an elected five-member council. In accordance with accounting principles generally accepted in the United States, there are no component units to be included in these financial statements.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

# Village of Eau Claire, Michigan

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## Notes to Financial Statements February 28, 2005

### Note 1 - Summary of Significant Accounting Policies (Continued)

#### Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Village considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, if applicable, special assessments and federal grant reimbursements will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Village reports the following major governmental funds:

**General Fund** - The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

**Major Streets Fund** - The Major Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on major streets.

**Local Streets Fund** - The Local Streets Fund accounts for the resources of state gas and weight tax revenues that are restricted for use on local streets.

# Village of Eau Claire, Michigan

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## Notes to Financial Statements February 28, 2005

### Note I - Summary of Significant Accounting Policies (Continued)

**Municipal Streets and Sidewalks Fund** - The Municipal Streets and Sidewalks Fund accounts for the resources provided by a tax millage to be used for road and sidewalk construction and repair.

The Village reports the following major proprietary funds:

**Waste Water Fund** - The Waste Water Fund accounts for the activities of the sewage collection system.

**Water Fund** - The Water Fund accounts for the activities of the water distribution system.

**Sanitation Fund** - The Sanitation Fund accounts for the activities of the refuse collection service.

Additionally, the Village reports the following internal service activities:

**Internal Service Fund** - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the Village on a cost reimbursement basis.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Village has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the Village's proprietary functions and various other functions of the Village. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

# Village of Eau Claire, Michigan

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## Notes to Financial Statements February 28, 2005

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Waste Water Funds also recognize the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 30, at which time penalties and interest are assessed.

The 2004 taxable valuation of the Village totaled \$10,139,296, on which taxes levied consisted of 11.2697 mills for operating purposes and 4.5076 mills for street repair and maintenance. This resulted in \$114,267 for operating and \$45,704 for street repair and maintenance. These amounts are recognized in the respective General and Special Revenue Funds financial statements as tax revenue.

#### **Assets, Liabilities, and Net Assets, or Equity**

**Bank Deposits** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Pooled interest income from the General Fund, Special Revenue Fund, and Enterprise Funds are generally allocated to each fund using a weighted average.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2005

### Note I - Summary of Significant Accounting Policies (Continued)

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the Village as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	7 to 25 years
Water and sewer systems	15 to 50 years
Buildings and building improvements	50 years
Vehicles	9 to 20 years
Equipment	3 to 25 years

**Compensated Absences (Vacation and Sick Leave)** - It is the Village's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for unpaid accumulated sick leave since the Village does not have a policy to pay any amounts when employees separate from service with the Village. All vacation pay is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates



# Village of Eau Claire, Michigan

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## Notes to Financial Statements February 28, 2005

### Note 2 - Stewardship, Compliance, and Accountability

**Construction Code Fees** - The Village oversees building construction, in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The Village charges fees for these services. The law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Shortfall at March 1, 2004	\$ (1,563)
Current year building permit revenue	5,992
Related expenses:	
Direct costs	\$ (4,786)
Estimated indirect costs	<u>(2,537)</u>
Total construction code expenses	<u>(7,323)</u>
Cumulative shortfall at February 28, 2005	<u>\$ (2,894)</u>

**Noncompliance with Legal Provisions** - As of the end of the fiscal year, the Village had not adopted an ACH policy, as required by the State of Michigan.

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2005

### Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The Village has designated two banks and one credit union for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investments in instruments allowed by Public Act 20.

The Village of Eau Claire, Michigan's deposits and investment policies are in accordance with statutory authority.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Total Primary Government
Cash and cash equivalents	<u>\$ 403,672</u>	<u>\$ 240,843</u>	<u>\$ 644,515</u>

The breakdown between deposits and investments for the Village is as follows:

	Primary Government
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	<u>\$ 644,324</u>
Petty cash or cash on hand	<u>191</u>
Total	<u>\$ 644,515</u>

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2005

### Note 3 - Deposits and Investments (Continued)

#### Deposits

The bank balance of the Village's deposits is \$650,650, of which \$282,000 is covered by federal depository insurance and \$368,650 is uninsured and uncollateralized. The Village believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Village evaluates each financial institution with which it deposits Village funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 4 - Capital Assets

Capital asset activity of the Village's governmental and business-type activities was as follows:

	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance February 28, 2005
<b>Governmental Activities</b>				
Capital assets not being depreciated -				
Land	\$ 30,140	\$ -	\$ -	\$ 30,140
Capital assets being depreciated:				
Buildings and improvements	87,717	-	-	87,717
Vehicles	95,258	-	-	95,258
Office furnishings and equipment	249,070	20,307	129,179	140,198
Subtotal	432,045	20,307	129,179	323,173
Accumulated depreciation:				
Buildings and improvements	52,067	1,754	-	53,821
Vehicles	84,478	10,202	-	94,680
Office furnishings and equipment	153,071	5,346	122,473	35,944
Subtotal	289,616	17,302	122,473	184,445
Net capital assets being depreciated	142,429	3,005	6,706	138,728
Net capital assets	<u>\$ 172,569</u>	<u>\$ 3,005</u>	<u>\$ 6,706</u>	<u>\$ 168,868</u>

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2005

### Note 4 - Capital Assets (Continued)

<b>Business-type Activities</b>	Balance March 1, 2004	Additions	Disposals and Adjustments	Balance February 28, 2005
Capital assets not being depreciated - Construction in progress	\$ -	\$ 79,599	\$ -	\$ 79,599
Capital assets being depreciated:				
Water and sewer distribution systems	847,781	-	-	847,781
Machinery and equipment	62,653	-	-	62,653
Subtotal	910,434	-	-	910,434
Accumulated depreciation:				
Water and sewer distribution systems	637,304	12,659	-	649,963
Machinery and equipment	54,538	678	-	55,216
Subtotal	691,842	13,337	-	705,179
Net capital assets being depreciated	218,592	(13,337)	-	205,255
Net capital assets	<u>\$ 218,592</u>	<u>\$ 66,262</u>	<u>\$ -</u>	<u>\$ 284,854</u>

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:	
General government	\$ 1,767
Public safety	7,590
Public works	6,151
Recreation and culture	1,794
Total governmental activities	<u>\$ 17,302</u>
Business-type activities:	
Water	\$ 299
Sewer	12,717
Sanitation	321
Total business-type activities	<u>\$ 13,337</u>

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2005

### Note 5 - Interfund Receivables, Payables, and Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
Municipal Streets and Sidewalks Fund	Local Streets Fund	<u>\$ 14,000</u>

The transfer from the Municipal Streets and Sidewalks Fund to the Local Streets Fund represents the use of tax revenues to maintain local streets in the Village, in accordance with budgetary authorizations.

### Note 6 - Long-term Debt

The Village borrows funds to provide for the acquisition of major capital assets. Installment purchase agreements are general obligations of the government.

Long-term obligation activity can be summarized as follows:

	<u>Interest Rate</u>	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
Internal Service Fund - Equipment note payable	0%	<u>\$ 25,313</u>	<u>\$ -</u>	<u>\$ (12,656)</u>	<u>\$ 12,657</u>	<u>\$ 12,657</u>
Compensated absences		<u>\$ 1,796</u>	<u>\$ 2,542</u>	<u>\$ -</u>	<u>\$ 4,338</u>	<u>\$ 2,100</u>

### Note 7 - Risk Management

The Village is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Village participates in the Michigan Municipal League risk pool for claims relating to all risks.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

# Village of Eau Claire, Michigan

## Notes to Financial Statements February 28, 2005

### Note 8 - Pension Plan

**Plan Description** - The Village participates in the Michigan Municipal Employees' Retirement System, an agent multiple-employer defined benefit pension plan that covers all employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

**Funding Policy** - The obligation to contribute to and maintain the system for these employees was established by the Village Commission and requires a contribution from the employees of 8.26 percent of gross wages.

**Annual Pension Cost** - For the year ended February 28, 2005 the Village's annual pension cost of \$6,317 for the plan was equal to the Village's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at December 31, 2002, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.4 percent per year, depending on age, attributable to seniority/merit, and (d) no increase after retirement. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll.

	Fiscal Year Ended February 28		
	2003	2004	2005
Annual pension costs (APC)	\$ 2,186	\$ 6,088	\$ 6,317
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-
	Actuarial Valuation as of December 31		
	2002	2003	2004
Actuarial value of assets	\$ 221,648	\$ 241,602	\$ 240,555
Actuarial Accrued Liability (AAL) (entry age)	284,936	390,155	406,580
Unfunded AAL (UAAL)	(63,288)	(148,553)	(166,025)
Funded ratio	77.79%	61.92%	59.17%
Covered payroll	110,430	87,963	95,832
UAAL as a percentage of covered payroll	(57.31%)	(168.88%)	(173.25%)

### Note 9 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The Village of Eau Claire has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The Village has elected only to implement the general provisions of the statement. Certain significant changes in the statement include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the Village's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the Village's activities
- Capital assets in the governmental activities column of the statement of net assets includes assets totaling approximately \$195,600 that would previously have been reported in the General Fixed Assets Account Group.
- Capital assets at March 1, 2004 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$180,000 to reflect disposals and the historical cost of the Village's capital assets at that date.

## **Required Supplemental Information**

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# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended February 28, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 100,000	\$ 106,800	\$ 117,535	\$ 10,735
State sources	81,352	81,352	79,315	(2,037)
Federal sources	50	700	1,563	863
Licenses and permits	2,690	3,140	8,670	5,530
Charges for services	70	70	61	(9)
Fines and forfeitures	6,510	6,500	8,011	1,511
Interest and rentals	3,000	2,900	5,414	2,514
Other	4,700	6,017	7,725	1,708
Total revenue	198,372	207,479	228,294	20,815
<b>Expenditures</b>				
Administration	57,262	57,188	65,630	(8,442)
Building	17,042	24,270	19,792	4,478
Public safety:				
Police	75,768	72,623	83,688	(11,065)
Fire	1,500	1,870	1,870	-
Inspections	1,500	1,500	4,786	(3,286)
Total public safety	78,768	75,993	90,344	(14,351)
Street lighting	9,000	9,000	8,391	609
Park and recreation	19,768	20,962	18,047	2,915
Total expenditures	181,840	187,413	202,204	(14,791)
<b>Excess of Revenue Over Expenditures</b>	16,532	20,066	26,090	6,024
<b>Fund Balance - Beginning of year</b>	268,816	268,816	268,816	-
<b>Fund Balance - End of year</b>	<u>\$ 285,348</u>	<u>\$ 288,882</u>	<u>\$ 294,906</u>	<u>\$ 6,024</u>

# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Major Street Fund Year Ended February 28, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 21,519	\$ 21,519	\$ 40,727	\$ 19,208
Interest income	-	-	400	400
Total revenue	21,519	21,519	41,127	19,608
<b>Expenditures</b>				
Salaries and benefits	7,028	7,041	5,042	1,999
Routine street maintenance	16,100	16,100	2,060	14,040
Equipment rental	3,800	3,800	5,248	(1,448)
Winter maintenance	1,000	1,000	232	768
Professional fees	700	700	800	(100)
Other	1,230	323	373	(50)
Total expenditures	29,858	28,964	13,755	15,209
<b>Excess of Revenue Over (Under) Expenditures</b>	(8,339)	(7,445)	27,372	34,817
<b>Fund Balance - Beginning of year</b>	24,335	24,335	24,335	-
<b>Fund Balance - End of year</b>	<u>\$ 15,996</u>	<u>\$ 16,890</u>	<u>\$ 51,707</u>	<u>\$ 34,817</u>

# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Local Street Fund Year Ended February 28, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
State sources	\$ 8,483	\$ 8,483	\$ 14,899	\$ 6,416
Interest income	-	-	103	103
Total revenue	8,483	8,483	15,002	6,519
<b>Expenditures</b>				
Salaries and benefits	10,828	10,988	5,140	5,848
Routine street maintenance	11,900	11,900	20,902	(9,002)
Equipment rental	9,000	9,000	9,700	(700)
Winter maintenance	1,500	1,500	249	1,251
Professional fees	900	900	1,000	(100)
Other	1,392	323	323	-
Total expenditures	35,520	34,611	37,314	(2,703)
<b>Excess of Revenue Over (Under) Expenditures</b>	(27,037)	(26,128)	(22,312)	3,816
<b>Other Financing Sources</b> - Transfers in	28,512	28,512	14,000	(14,512)
<b>Excess of Revenue and Other Financing Sources Over (Under) Expenditures</b>	1,475	2,384	(8,312)	(10,696)
<b>Fund Balance</b> - Beginning of year	12,516	12,516	12,516	-
<b>Fund Balance</b> - End of year	<u>\$ 13,991</u>	<u>\$ 14,900</u>	<u>\$ 4,204</u>	<u>\$ (10,696)</u>

# Village of Eau Claire, Michigan

## Required Supplemental Information Budgetary Comparison Schedule Municipal Streets and Sidewalks Fund Year Ended February 28, 2005

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Revenue</b>				
Property taxes	\$ 39,200	\$ 39,200	\$ 46,943	\$ 7,743
Interest income	-	-	734	734
Total revenue	39,200	39,200	47,677	8,477
<b>Expenditures</b>				
Salaries and benefits	7,008	7,105	8,237	(1,132)
Flowers	500	500	842	(342)
Equipment rental	3,000	3,000	863	2,137
Other	-	-	1,096	(1,096)
Total expenditures	10,508	10,605	11,038	(433)
<b>Excess of Revenue Over Expenditures</b>	28,692	28,595	36,639	8,044
<b>Other Financing Uses - Transfers out</b>	28,512	28,512	14,000	14,512
<b>Excess of Revenue Over Expenditures and Other Financing Uses</b>	180	83	22,639	22,556
<b>Fund Balance - Beginning of year</b>	41,366	41,366	41,366	-
<b>Fund Balance - End of year</b>	<u>\$ 41,546</u>	<u>\$ 41,449</u>	<u>\$ 64,005</u>	<u>\$ 22,556</u>

# Village of Eau Claire, Michigan

## Note to Required Supplemental Information February 28, 2005

### Note - Budgetary Information

**Budgetary Information** - Annual budgets are prepared by the finance committee on a basis consistent with generally accepted accounting principles for the General Fund and all Special Revenue Funds and adopted by the Village Council. Subsequent amendments are approved by the Village Council.

The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the department level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - The Village had the following significant expenditure budget variances.

	<u>Budget</u>	<u>Actual</u>
General Fund - Public safety - Police	\$ <u>72,623</u>	\$ <u>83,688</u>

To the Village Council  
Village of Eau Claire  
Eau Claire, Michigan 49111

In planning and performing our audit of the financial statements of the Village of Eau Claire for the year ended February 28, 2005, we considered the Village's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements. The consideration we gave to the internal control structure was not sufficient for us to provide any form of assurance on it. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions are significant deficiencies in the design or operation of the internal control structure that have come to our attention and, in our judgment, could adversely affect the Village's ability to record, process, summarize, and report financial data consistent with management's assertions inherent in the financial statements. This report contains items considered to be reportable conditions, as defined above, as well as other items we feel warrant your consideration.

### **Segregation of Duties**

Control over cash receipts transactions is limited because of insufficient segregation of duties. The same individual accepts cash receipts, records cash receipts, prepares bank deposits, and makes bank deposits. A second individual does receive the bank statements and prepares the bank reconciliations, adding a level of control. Due to limited personnel, the Village does not feel further segregation would be warranted from a cost/benefit standpoint.

### **Electronic Transfers**

There was a new bill passed and signed on December 31, 2002 (PA 738) that requires all local units of government to approve a resolution authorizing payments of "automated clearing house (ACH) transactions." Beginning immediately, a local unit's governing body must adopt a policy on the ACH arrangement that includes all of the following:

- Designation of an individual as the party responsible for payment approval, accounting, reporting, and compliance with the ACH policy;
- A statement that this individual is required to submit documentation as follows: describe goods or services purchased, the cost, date of payment, and the department benefiting from the purchase;
- A system of internal controls to monitor the use of ACH transactions; and
- The approval of ACH invoices before payment.

To the Village Council  
Village of Eau Claire

As of fiscal year 2005, we noted that the Village has an ACH procedures document. We recommend that the Village Board adopt this procedures document, or a similar ACH policy document, to fulfill the above requirements.

We also noted during the audit that the ACH transaction verification fax sent from the bank to the Village is received by the same person who initiates the transaction. Controls over these kinds of transactions are limited when there is no requirement for a second person to review the transaction. We recommend that the Village, as part of the ACH policy adopted, require that a different person receive verification faxes from the bank than the person who originally initiates it. This kind of control can also be accomplished by having the bank always fax the verification letter to a second person who cannot initiate ACH transactions.

### **Fixed Asset Classification**

We recommend that the Village adopt a policy for classifying asset groups and their related lives. We would be pleased to provide the Village with an example of fixed asset policy, if requested.

### **Budgeting**

While the Village has streamlined their budgeting process in recent years, we further recommend that the Village adopt a budget that mirrors the state chart of accounts. This would include the use of departments as listed in the state guidelines.

### **Payroll - Direct Deposit**

Currently the Village does not have an authorization form for the employees to sign when electing to have their paychecks deposited directly into their bank account. We recommend the Village create a direct deposit authorization form that all employees fill out and sign, indicating that they want their paychecks direct deposited into a specified bank account.

### **Capital Expenditures**

Upon tying out capital expenditures for the Sewer Fund construction relating to the ongoing lagoon project, we noted that the Village paid the same \$553 invoice from Fleis & Vandenbrink twice. The Village received a credit from Fleis & Vandenbrink in April 2005. However, the Village may not have known that they paid too much if the vendor hadn't notified the Village. We recommend the Village pay close attention to the specific charges on each invoice received, especially when dealing with construction projects.

### **Millage Rates**

During our audit, we reviewed approved millage rates and related property taxes. We noted that the millage rate approved in the board minutes contained an error and was not the same millage rate as reported to the County on Form L4029. This error was later discovered by the County and was corrected by the Village, although the corrected amount was never approved by the board. Even though the change was just a calculation error, we recommend that the board formally approve all changes and corrections to millage rates, however small they may be.

### **Sanitation Rates**

During the past fiscal year, the Village received a significant price increase (36 percent) from Best Way Disposal for the collection and disposal of Village trash. In addition, the Village gets charged based on a set number of pickups, even though the number of pick-up addresses has decreased. The fixed cost of sanitation services has increased sharply and the number of addresses decreased, so the cost per unit has risen greatly. However, the Village has not raised its rates to residents in some time. As the margin has nearly disappeared in the Sanitation Fund, the Village should consider whether current rates are sufficient on a go-forward basis.

### **State-shared Revenue and Budgeting**

We recommend that the Village continue to evaluate the impact of the revenue-sharing reductions on the new budget. In addition, updated information can be obtained from the Department of Treasury's web site at <http://treas-secure.state.mi.us/apps/findrevshareinfo.asp> or by calling the Office of Revenue and Tax Analysis at 517.373.2697. We will continue to update the Village as developments occur.

### **New Report Format**

As you are probably aware, the format of this year's financial statements looks different than in years past. During 2005, the City adopted the requirements of the new Governmental Accounting Standards Board Standard No. 34. Most noticeably, your financial statements begin with a new section, a management's discussion and analysis. Other changes involve the equity portion of the statement of net assets, format changes to both the statement of net assets and the statement of cash flows, and several changes to the notes to financial statements. We would be happy to discuss these changes further at your convenience.

We appreciate the courtesy and cooperation extended to us by you and the members of your organization during the audit. We appreciate the opportunity to present these recommendations for your consideration and would be pleased to discuss them further at your convenience.

*Plante & Moran, PLLC*

June 20, 2005